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SUBJECT: AMBASSADOR'S MEETING WITH LEIF FAGERNAS, DG
CONFEDERATION OF FINNISH INDUSTRIES (EK)

REF: HELSINKI 00787

¶1. (U) Summary: Ambassador met with Leif Fagernas, Director General of the Confederation of Finnish Industries (EK) on August 9. They discussed Finland's efforts to remain competitive in the face of a rapidly aging population, the significant strains on its social programs, and increasing global competition. Fagernas stated that an alarming 50 percent of the current Finnish workforce would retire over the next 15 years. (Note: Post believes the figure is closer to 40 percent.) Fagernas cited opposition by the GOF Finance Ministry to increased R&D funding as a missed opportunity for Finland to become more competitive through innovation. The Ambassador offered her assistance to further dialogue between innovative American and Finnish companies. End Summary.

¶2. (U) Background: The Confederation of Finnish Industries (EK) has nearly 15,000 member companies representing 900,000 employees. EK member companies represent more than 70 percent of Finland's gross domestic product (GDP), and over 95 percent of Finland's exports. Leif Fagernas, previously Finnish Ambassador to Germany, has been Director General of the Confederation of Finnish Industries (EK) since January 1, 2005. End background.

Aging Workforce, Need for Immigration

¶3. (U) Fagernas addressed the growing pressure Finnish companies were facing as many low-skill industry jobs leave Finland for Asia. Though Finnish investment in R&D is quite high, (the second highest in Europe behind Sweden at 3% of GDP), it still trails U.S. and Asian levels. Fagernas noted the difficulties of convincing many of EK's trade unions that they needed to adapt to a rapidly changing world.

¶4. (SBU) Fagernas pointed to the rapidly aging Finnish domestic workforce, stating that an alarming 50 percent of the Finnish workforce would retire over the next 15 years. By the year 2030 the dependency ratio (workers to retirees over 65) is expected to more than double, from 24 percent to 45 percent - the highest level in the EU. Fagernas said this would create a significant strain on Finland's social security system as retirees are not adequately replaced by new workers. One solution to this dilemma is attracting worker from other countries, though this solution continues to be viewed unfavorably by much of the Finnish population and especially EK members. This resistance has roots in traditionally high levels of unemployment (8.1 percent as of June 2006) and distrust of foreigners, particularly from Russia.

¶5. (U) Annually about 30,000 foreign workers come to

Finland to work on at least a seasonal basis. Some estimates predict that as many as 300,000 foreign workers will be needed by 2030 to overcome the deficit in the projected workforce due to retirees.

¶6. (U) Fagnas mentioned two recent GOF reports that state that more foreign labor is needed in the Finnish labor market, and that this labor will serve to complement the Finnish labor force rather than replace it. Fagnas was concerned that he had heard nothing further about implementing the findings of the reports.

¶7. (U) Fagnas was skeptical that the recently proposed GOF work relocation program would help improve the employment situation in Finland. He said the proposal is purely political and that 500 Euros to offset relocation expenses is simply not enough to encourage workers to relocate for employment. EK is working on its own proposal to improve employment in Finland which they hope to present to the GOF during the next week. The EK proposal will include a mix of retraining and basic education, as well as assisting workers in finding new employment.

Finnish Focus on R&D

¶8. (SBU) The Trade and Industry Ministry previously announced a comprehensive program to increase R&D to 4 percent by the end of the decade. This proposal has thus far been opposed by GOF Finance Minister Heinaluoma due to budgetary concerns. Given that 70% of R&D spending in Finland is by private companies, with another 15-20% coming from universities (also state-funded, but from another pot of money), Fagnas observed that the government need only

HELSINKI 00000824 002 OF 002

supply a "marginal increase" (his words). Fagnas thought it was unfortunate that the Finance Ministry was not budgeting for this increase in the current budget.

Dialogue between American and Finnish Companies

¶9. (U) Fagnas was concerned about the lack of significant new foreign investment in Finnish industries, citing one survey that didn't even rank Finland as one of the top 35 economies in which to invest. The Ambassador offered to pursue further avenues to open a better dialogue between innovative American companies and Finnish companies. The focus of this dialogue would be to demonstrate how R&D efforts can profitably exist within a company's business model.

¶10. (SBU) Comment: Since Finland will realize a slight budgetary surplus this year (as it has for the last 5-6 years), there is money, but apparently no political will, to fund an increase in R&D. The Finns have exercised budgetary restraint in recent years in an effort to build reserves for the future when they expect to have increased social spending to serve their aging population. End Comment.

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